



INTERNATIONAL ECONOMIC SCOREBOARD

APRIL, 1985

SUMMARY

R4105-6A

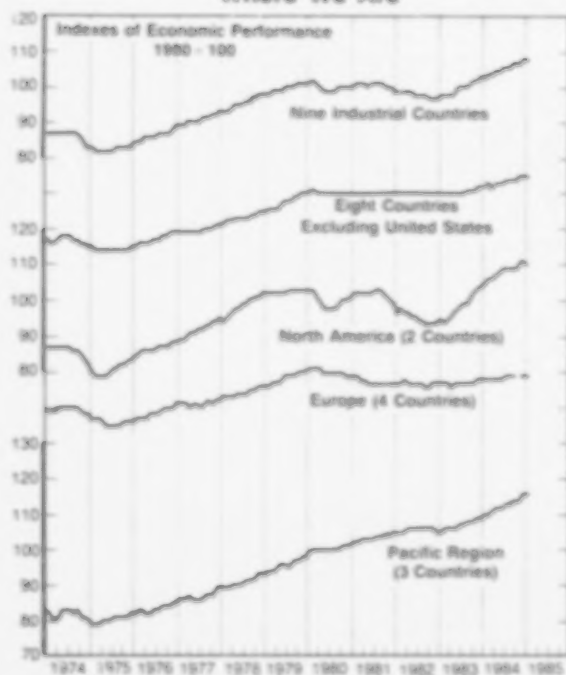
The leading economic indexes for nine industrial nations continued to advance early this year, some countries smartly, others leisurely. At the head of the list with growth rates of 5% to 9% are Japan, Taiwan, Australia, and the United Kingdom. Slower advances, in the range of 1% to 3%, were recorded by the leading indexes for France, Italy, the United States, Canada, and West Germany. This cyclical expansion in the Pacific region continues to outpace Europe and North America—and this holds true for the economic performance indexes as well as the leaders.

With the "Summit" conference of Western leaders scheduled to get underway shortly in Bonn, the abrupt slowdown in the growth rate of the leading index for West Germany is worth separate mention: After reaching a new record high in December, the index fell back two points in January. Although this is a large movement, it is too short-lived to indicate whether or not a change in cyclical direction has taken place.

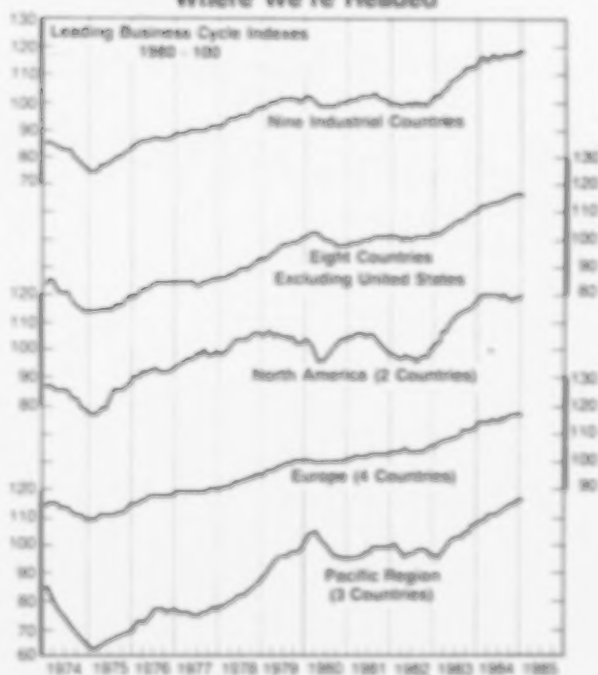
Direction has taken place.		Leading Business Cycle Indexes Growth Rates*			Indexes of Economic Performance Growth Rates*			Current Reading on the Cycle	Latest Month Covered
Ten-year Growth Rate 1969-79		6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
		annual rates, percent							
9 countries	4	5	3	3	6	4	4	Expansion slowing	Jan.
8 countries ex. U.S.	4	6	6	5	4	4	3	Expansion continuing	Jan.
Europe (4)	3	4	5	3	2	2	2	Expansion continuing	Jan.
Pacific Region (3)	5	9	8	8	6	6	6	Expansion continuing	Jan.
North America (2)	3	3	0	1	9	6	4	Expansion slowing	Jan.
United States	3	4	-1	2	8	6	3	Expansion slowing	Feb.
Canada	4	5	1	2	6	4	3	Expansion continuing	Jan.
West Germany	3	5	6	1	3	4	5	Expansion continuing	Jan.
France	4	7	7	3	0	-1	0	Recovery stalled	Dec.
United Kingdom	2	1	2	5	-1	1	1	Recovery continuing	Jan.
Italy	3	4	4	2	3	7	3	Expansion continuing	Dec./Nov.
Japan	5	9	8	9	5	5	6	Expansion continuing	Jan.
Australia	4	7	7	5	10	7	7	Expansion continuing	Jan.
Taiwan, R.O.C.	10	9	6	6	9	6	4	Expansion slowing	Feb.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

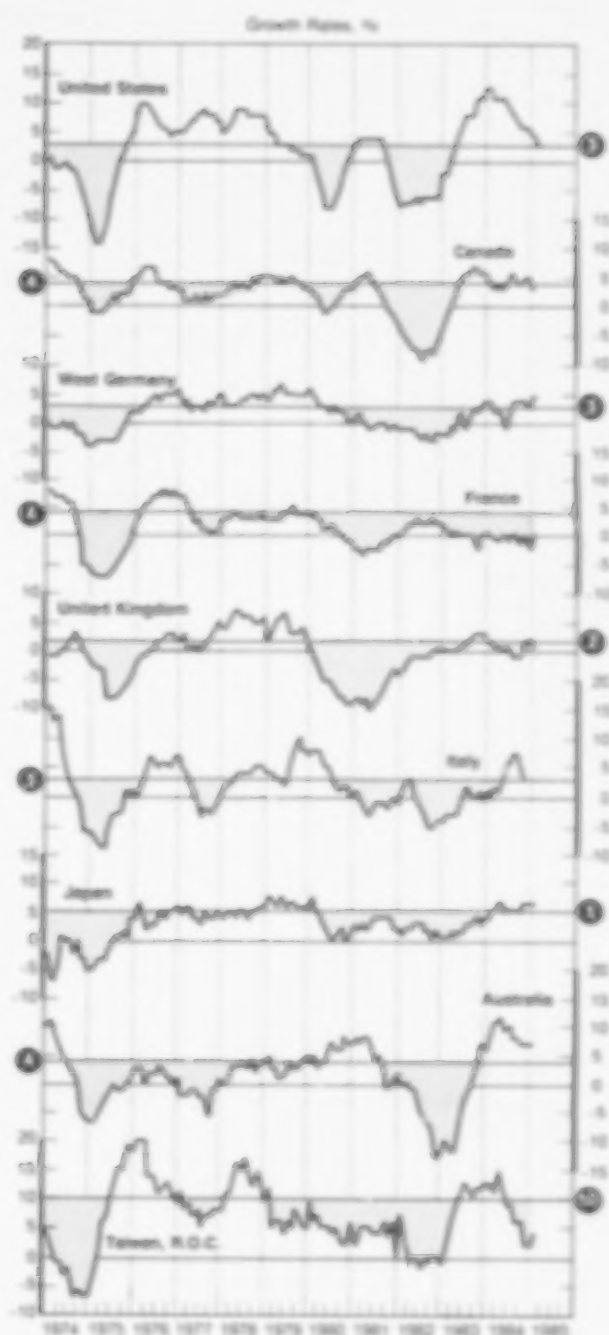
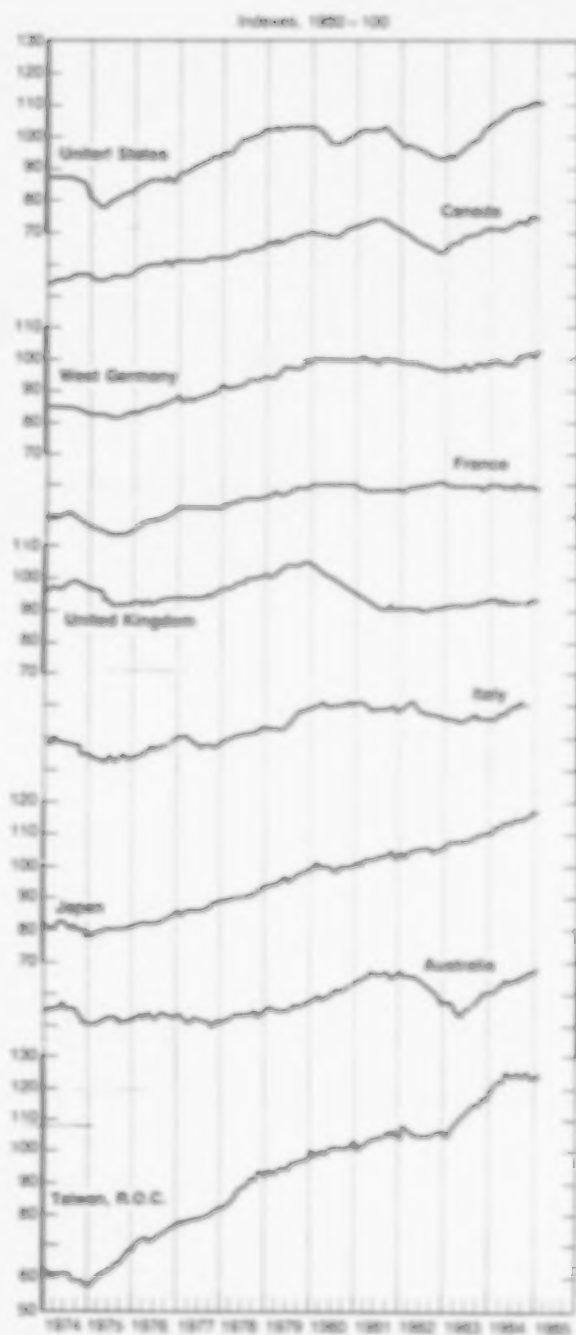
Where We Are



Where We're Headed



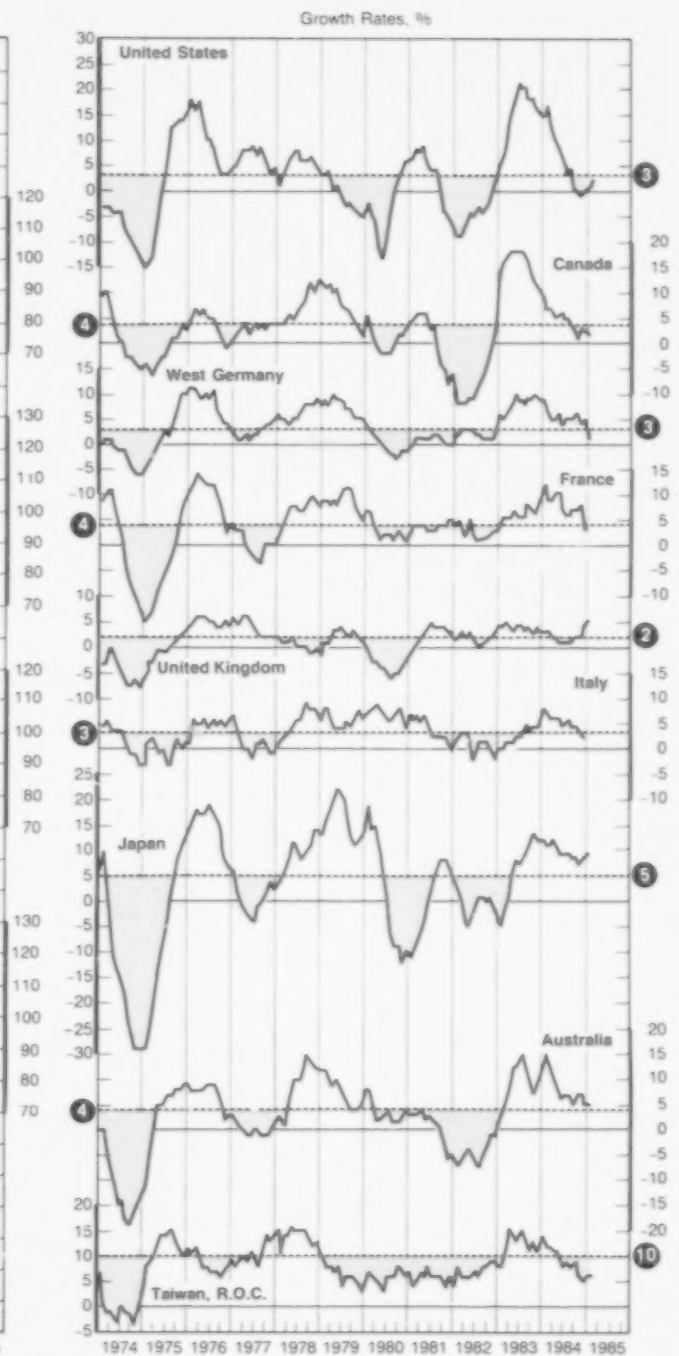
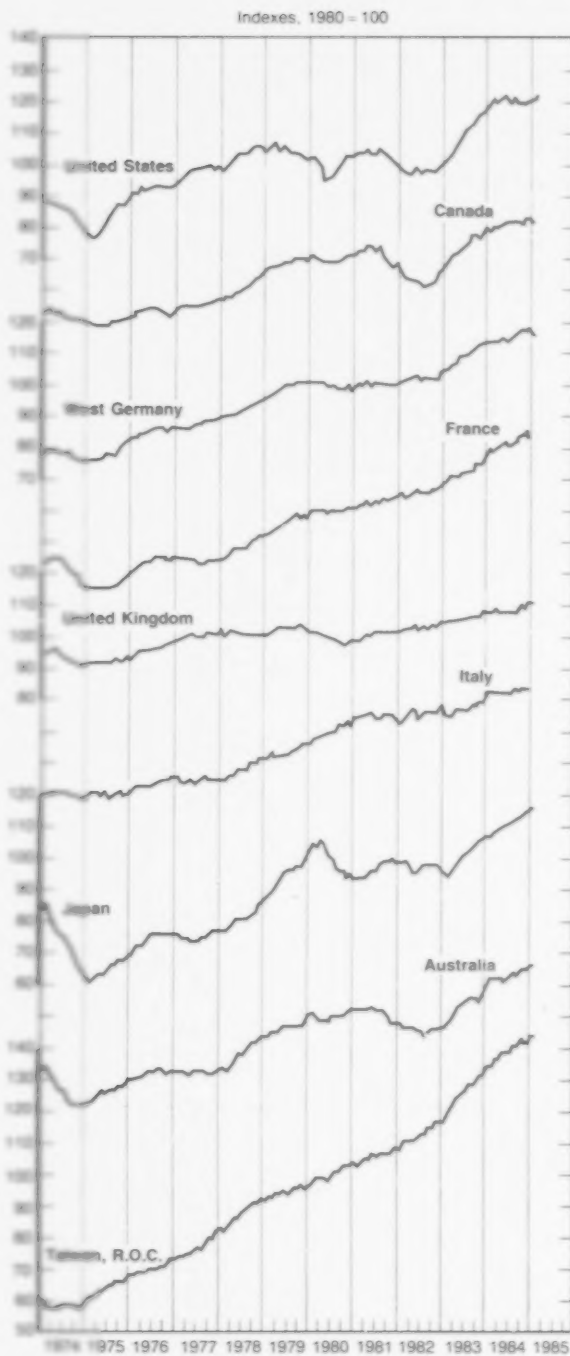
Where We Are Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1960-75 in the index and in real GDP.
Source: CIBOR and The Conference Board

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
 Sources: CIBCR and The Conference Board

GROWTH AND INFLATION IN FIVE COUNTRIES

The February issue of the *Scoreboard* examined long-run trends in real gross national product (GNP) for five countries, abstracting in each case from the shorter run fluctuations associated with the business cycle. In this issue we look at the shorter run movements, abstracting from trend, for these same five countries. Instead of analyzing the GNP data in its usual business cycle format, however, we look at it in terms of the fluctuations around trend—the so-called “growth cycles”. As we shall see, these growth cycles have a significant impact on inflation.

In all of these countries, the 1980's recession cut deeply into real output and other economic activities. The declines should not, however, be viewed merely as a pathological phenomenon. At the end of the 1970s inflation had gotten out of control, and the 1980's recession performed the painful, but also desirable, function of sharply reducing inflation in these countries. In some cases inflation was virtually eliminated.

In the United States, when the inflation rate reached its peak in early 1980, consumer prices were rising at a 15 percent annual rate. By early 1983, the inflation rate in this country reached a low of 2 percent. Thus in three years the rate of increase in consumer prices declined 13 percentage points. By this yardstick, in other words, the inflation rate travelled almost 90 percent of the distance to complete price stability.

In Japan the results were equally striking. The inflation rate dropped 8 percentage points from its peak rate of 9 percent. Similar successes in the effort to restore price stability are evident in the statistics for the United Kingdom, West Germany, and Canada.

Numerous studies have documented the correlation between cyclical movements in business activity and the inflation rate in countries around the world. In most cases, when the business cycle is on the upswing inflation accelerates, and when the economy sags so does the inflation rate. Current analysis at the Center for International Business Cycle Research at the Columbia Business School shows that the strength of the cyclical upswing (or downswing) is closely related to how much acceleration (or deceleration) takes place in the inflation rate. In recent years, the change

in the inflation rate has typically lagged the output cycle by 4-18 months. The correlation is documented in the accompanying chart and table.

The table gives estimates of changes in the inflation rates that have been associated with cyclical swings in real output relative to trend. For the United States, the historical pattern shows that a moderate cyclical swing is normally followed by an acceleration (in an upswing) or a deceleration (in a recession) of about 5 percentage points in the rate of inflation. A sharp cyclical swing will produce a 9-percentage-point change in the inflation rate. In Canada and West Germany the relationship is similar to that of the U.S., while inflation in the U.K. and Japan is much more sensitive.

THE BUSINESS CYCLE AND INFLATION

Cyclical Swing	Acceleration or Deceleration of Inflation				
	United States	Canada	United Kingdom	West Germany	Japan
	(change in percentage points)				
Moderate*	5	6	10	5	12
Sharp*	9	10	16	8	19

* In the United States, a “moderate” cyclical swing is comparable to the recovery of 1958-60 and the recession of 1969-70; a “sharp” cyclical swing is comparable to the 1970-73 recovery and the 1973-75 recession.

With respect to the current recovery, the historical patterns are holding true abroad but not here in North America. In the United Kingdom, West Germany, and Japan, increases in inflation rates to date have been commensurate with their relatively modest recoveries in output relative to trend. In the U.S. and Canada, where major upswings in output have occurred, increases in inflation rates have been much smaller than would have been expected from past experience. The unusually favorable U.S. inflation experience has doubtless been fostered by the declining level of import prices expressed in dollars and the greatly increased volume of imports, which together with deregulation and other factors have been holding down U.S. prices and labor costs.

INDEXES, NINE COUNTRIES, 1983-85

		U.S.		Canada		West Germany		France		Italy		U.K.		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	83	103	116	101	108	98	112	100	115	96	109	94	107	110	106	99	105	116	131
Dec.	83	104	117	101	109	99	112	100	117	96	109	94	108	110	106	100	108	116	132
Jan.	84	105	119	101	109	99	113	100	119	96	112	93	108	110	107	100	110	118	135
Feb.	84	106	121	101	110	100	113	100	119	96	112	93	108	112	107	101	112	119	135
Mar.	84	106	120	101	110	99	113	100	120	97	112	93	109	112	108	102	112	121	137
Apr.	84	108	121	102	111	99	114	99	121	97	112	93	108	112	110	103	112	121	137
May	84	108	121	102	111	99	115	100	122	98	112	93	108	113	110	104	112	124	139
June	84	109	121	103	112	98	114	99	121	99	112	93	108	113	110	104	112	123	139
July	84	109	120	104	112	100	115	100	121	100	113	93	108	114	111	105	113	123	139
Aug.	84	109	121	104	112	101	116	100	122	100	114	93	108	114	112	105	114	124	141
Sept.	84	110	120	104	112	101	116	99	123	101	113	93	109	114	113	106	113	124	141
Oct.	84	110	119	104	111	102	117	99	124	100	114	93	110	115	113	106	114	124	143
Nov.	84	111	119	105	113	102	117	100	125	100	114	94	109	116	114	107	115	125	142
Dec.	84	111	120	105	113	101	118	99	123	114	94	111	117	115	107	115	123	142	
Jan.	85	111	121	105	112	103	116	99				94	111	117	116	108	116	123	144
Feb.	85	111	122															125	144

Growth Rates, Percent

Nov.	83	11	16	6	12	3	10	0	6	1	4	3	3	3	13	5	7	12	13
Dec.	83	12	15	6	10	3	8	0	8	0	4	3	4	4	12	8	11	12	11
Jan.	84	13	15	5	9	4	8	1	12	1	8	2	3	4	12	7	12	13	14
Feb.	84	13	16	3	7	5	6	0	9	0	8	2	2	5	11	8	15	12	12
Mar.	84	11	12	3	7	2	5	0	9	2	6	1	3	5	11	11	12	13	12
Apr.	84	11	10	4	7	2	5	-1	10	1	6	1	2	6	12	11	9	11	11
May	84	11	9	3	5	2	6	-1	10	3	6	0	2	6	11	12	8	14	11
June	84	11	6	4	6	-1	4	-1	7	5	4	0	1	5	9	9	6	11	10
July	84	9	3	6	5	3	5	0	6	6	5	-1	1	5	9	10	7	9	8
Aug.	84	8	4	5	5	4	5	0	6	7	6	-1	1	5	9	8	7	9	9
Sept.	84	7	2	4	4	4	5	-1	7	7	4	0	1	5	8	8	5	6	8
Oct.	84	6	0	4	1	4	6	-1	7	4	4	1	2	5	8	7	7	6	9
Nov.	84	6	-1	5	3	4	4	0	8	3	3	1	2	6	7	7	7	6	6
Dec.	84	5	0	5	3	3	5	-2	3		2	2	4	6	8	7	5	2	5
Jan.	85	4	1	3	2	5	1	0			1	5	6	9	7	5	2	6	
Feb.	85	3	2															4	6

Ten Year Annual Growth Rate, Percent

1969-79	3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10
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		9		8		Nonh				Pacific	
		Countries		Countries		America (2)		Europe (4)		Region (3)	
				ex U.S.							
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	83	102	112	101	110	102	115	97	111	108	106
Dec.	83	103	113	102	110	104	116	97	112	109	107
Jan.	84	103	114	102	111	105	118	98	113	110	108
Feb.	84	104	115	102	111	106	120	98	113	111	109
Mar.	84	104	115	102	112	106	120	97	114	111	110
Apr.	84	105	116	103	113	107	120	97	114	112	111
May	84	105	117	103	113	108	120	98	115	112	111
June	84	106	116	103	113	109	120	97	114	112	111
July	84	106	116	104	114	109	119	98	115	113	112
Aug.	84	106	117	104	114	109	120	98	115	113	113
Sept.	84	106	117	104	115	109	119	99	116	114	114
Oct.	84	107	117	104	116	109	118	99	117	114	114
Nov.	84	107	117	105	116	110	119	99	117	115	114
Dec.	84	108	118	105	116	111	119	99	117	116	116
Jan.	85	108	118	105	116	110	120	99	117	116	117

Growth Rates, Percent

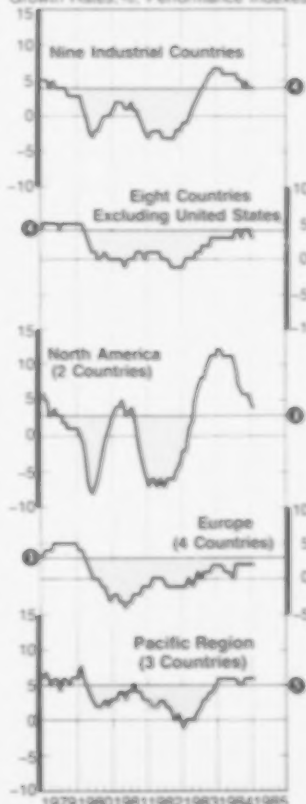
Nov.	83	6	12	3	9	11	15	2	6	4	13
Dec.	83	7	11	3	9	11	14	2	7	5	12
Jan.	84	7	12	3	9	12	15	2	8	5	12
Feb.	84	7	11	3	8	12	15	2	6	6	12
Mar.	84	6	9	3	8	11	11	1	6	6	11
Apr.	84	6	9	3	8	11	10	1	6	6	12
May	84	6	8	3	7	11	9	1	6	6	10
June	84	6	6	3	6	11	6	0	4	6	9
July	84	6	5	4	6	9	3	2	4	6	9
Aug.	84	5	5	4	6	8	4	2	4	5	8
Sept.	84	5	4	3	6	7	2	2	4	5	8
Oct.	84	4	3	4	6	6	0	2	5	6	8
Nov.	84	5	3	4	5	6	0	2	4	6	7
Dec.	84	4	3	4	5	5	0	2	4	6	7
Jan.	85	4	3	3	5	4	1	2	3	6	6

Ten Year Annual Growth Rate, Percent

1969-79	4	4	4	4	3	3	3	3	5	5
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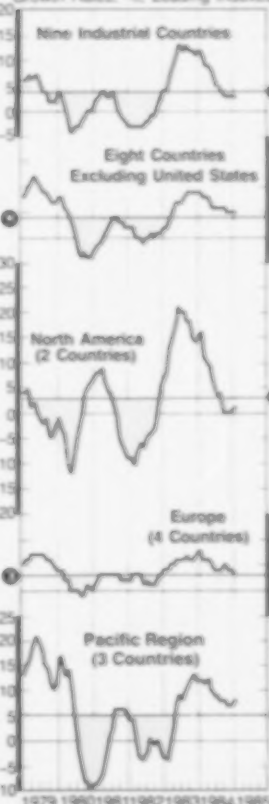
Where We Are

Growth Rates, % Performance Indexes



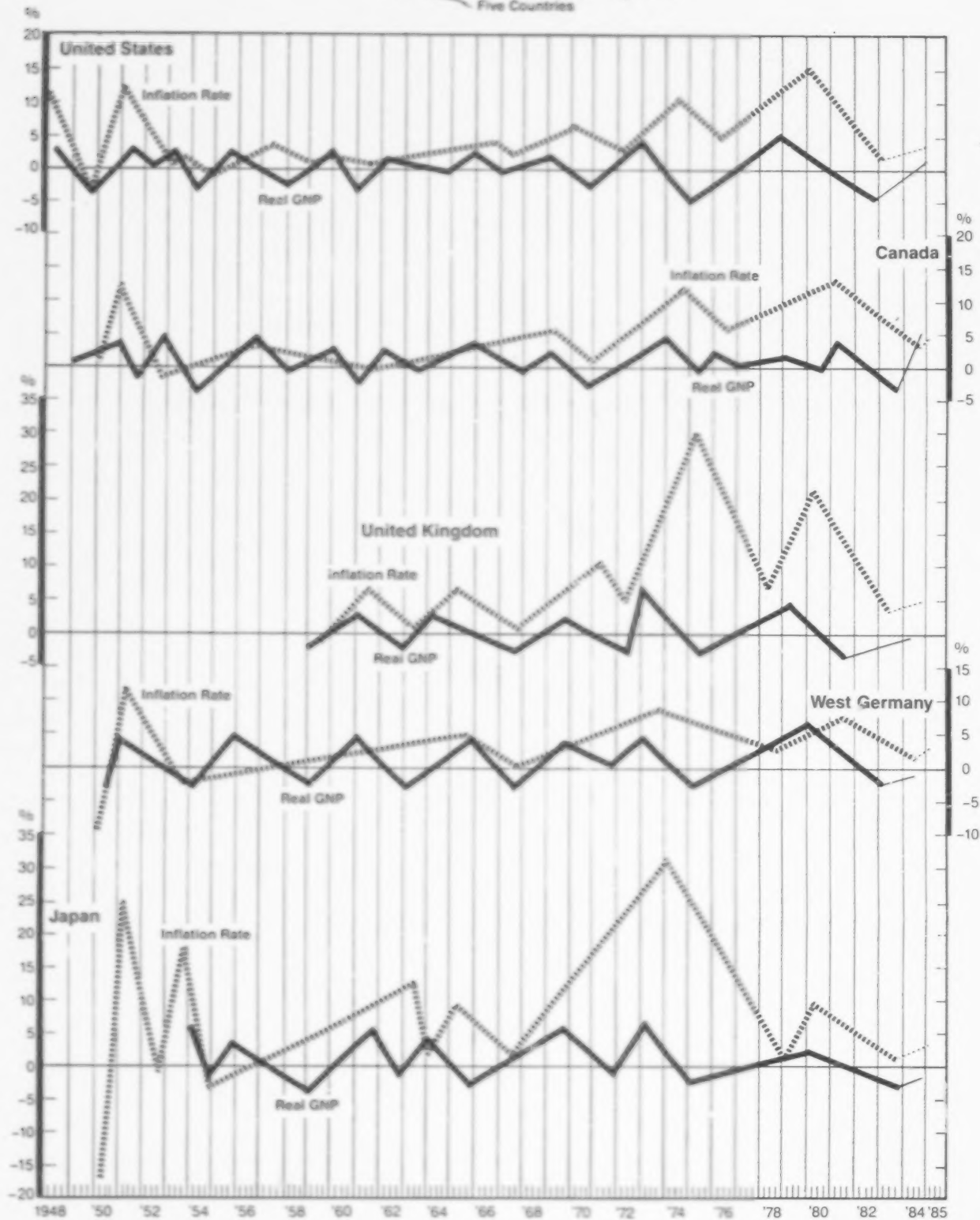
Where We're Headed

Growth Rates, % Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
Sources: CIBOR and The Conference Board

Inflation and Growth Cycles Five Countries



Note: Real GNP data are % deviations from trend.

For both series, points plotted are cyclical peaks and troughs, except final plot which is latest date available (and thus an incomplete cycle).

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